SaskTel

Second Quarter Report

Contents:

Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2021/22

For the Period Ending September 30, 2021

Saskatchewan Telecommunications Holding Corporation (the Corporation, SaskTel) is a Saskatchewan Crown corporation. The Corporation's wholly-owned subsidiaries (Saskatchewan Telecommunications, Directwest, SecurTek and SaskTel International) offer a wide array of products, services, and solutions to customers in Saskatchewan and around the world. The Corporation has a workforce of approximately 3,400 full-time equivalent employees (FTE's), making the Corporation one of Saskatchewan's largest employers.

Our vision is "*Be the best at connecting people to their world"* and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

Pandemic Impact on Operating Environment

SaskTel's annual report discussed the continuing impact of the COVID-19 pandemic. The COVID-19 pandemic has caused significant disruption to the Canadian and world economies. While there has been minimal impact to the Corporation as a result of the pandemic, the Corporation continues to assess and monitor the impact of the pandemic on its operations. However minimal the impacts of the pandemic have been, the magnitude and duration of the pandemic continues to be uncertain and the impacts to the Corporation could increase. Potential impacts include loss of revenue, supply chain disruption, challenges associated with a remote or unavailable workforce and asset impairment. Measures to combat the spread of the pandemic have intensified over the last several months, including significant vaccine administration programs. As the pandemic has progressed, the risk of experiencing negative impacts from reduced customer spending or SaskTel's inability to serve customers has diminished.

As noted, the impacts of the pandemic on the Corporation have been minimal and estimates of any impacts have been included where appropriate. At this point in the recovery process, it is not anticipated that there will be significant additional impacts, however, given the uncertainty of the magnitude and duration of the pandemic it is not possible to determine if there will be significant additional impacts on current operations or reported asset and liability values.

Consolidated Highlights

FINANCIAL

Net Income	Revenue	Return on Equity	Capital Expenditures
$56.1M	$633.3M	8.5%	$133.3M
(26.6%) vs Q2 2020/21	(1.4%) vs Q2 2020/21	(0.1) percentage points vs Q2 2020/21 Based on Q2 2020/21 and Q2 2021/22 Net Income YEE	(9.8%) vs Q2 2020/21 *Excluding spectrum acquisitions

CUSTOMER CONNECTIONS

Broadband Internet	maxTV Service	Wireless	Fibre	Wireline Voice
+3.2%	+1.1%	+1.0%	+13.6%	(5.8%)
Subscriber Growth yr/yr	Subscriber Growth yr/yr	Subscriber Growth yr/yr	Subscriber Growth yr/yr	Subscriber Decline yr/yr

Broadband Internet

September 2021	**851,479**
September 2020	824,917
March 2021	837,936

maxTV Service

September 2021	**112,907**
September 2020	111,679
March 2021	114,120

Wireless

September 2021	**645,225**
September 2020	639,043
March 2021	639,239

Fibre

September 2021	**158,359**
September 2020	139,382
March 2021	149,867

Wireline Voice

September 2021	**282,697**
September 2020	299,983
March 2021	289,934

Consolidated Net Income

	Three months ended September 30,				Six months ended September 30,			
Millions of dollars	**2021**	2020	Change	% Change	**2021**	2020	Change	% Change
Revenue	**$322.1**	$333.5	$(11.4)	(3.4)	**$633.3**	$642.1	$(8.8)	(1.4)
Other income	**0.7**	1.3	(0.6)	(46.2)	**1.0**	3.9	(2.9)	(74.4)
	322.8	334.8	(12.0)	(3.6)	**634.3**	646.0	(11.7)	(1.8)
Expenses	**283.1**	285.2	(2.1)	(0.7)	**565.2**	552.3	12.9	2.3
Results from operating activities	**39.7**	49.6	(9.9)	(20.0)	**69.1**	93.7	(24.6)	(26.3)
Net finance expense	**6.6**	6.8	(0.2)	(2.9)	**13.0**	17.3	(4.3)	(24.9)
Net income	**$33.1**	$42.8	$(9.7)	(22.7)	**$56.1**	$76.4	$(20.3)	(26.6)

Net income for the six months ended September 30, 2021 was $56.1 million, a decline of $20.3 million (26.6%) from the same period in 2020/21.

Revenue for the six months ended September 30, 2021 was $633.3 million, a decline of $8.8 million (1.4%) from the same period in 2020/21 primarily due to decreased wireline communication services and customer premise equipment sales, partially offset by strong customer growth in wireless network services and equipment in addition to fixed broadband and data services.

Expenses for the six months ended September 30, 2021 were $565.2 million, an increase of $12.9 million (2.3%) from the same period in 2020/21. This increase was primarily due to increased depreciation and amortization.

Net finance expense for the six months ended September 30, 2021 was $13.0 million, a decrease of $4.3 million (24.9%) over the same period in 2020/21. The decrease was primarily driven by lower average interest rates on outstanding debt and increased interest income on overdue accounts.

Management's Discussion and Analysis

November 10, 2021

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter of 2021/22. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the fiscal year ended March 31, 2021. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please refer to Management's Discussion & Analysis in SaskTel's 2020/21 Annual Report.

These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

These interim statements have been approved by the SaskTel Board of Directors on November 10, 2021.

Results of Operations

Revenue

Millions of dollars	**2021**	2020	Change	% Change
Three months ended September 30,	**$322.1**	$333.5	$(11.4)	(3.4)
Six months ended September 30,	**$633.3**	$642.1	$(8.8)	(1.4)

Revenue for the second quarter of 2021/22 was $322.1 million, an $11.4 million decrease from the same period in 2020/21. Year-to-date revenue was $633.3 million, a $8.8 million decrease year-over-year. The decrease was due to lower wireline communication services comprised of the ongoing erosion of legacy voice revenues, a reduction in non-recurring customer premise equipment sales, and a reduction in other services due to a decrease in customer project work. The decrease was partially offset by growth in wireless network services and equipment due to a higher subscriber base, higher revenue per device due to an increased proportion of premium-value device sales, and a higher mix of converged customers. Wireless wholesale revenue increased due to increased network usage by customers of other carriers while fixed broadband and data services were driven by strong growth in fibre accesses due to fibre conversion, new construction, and higher bandwidth which provides a competitive advantage.

Expenses

Millions of dollars	2021	2020	Change	% Change
Three months ended September 30,	$283.1	$285.2	$(2.1)	(0.7)
Six months ended September 30,	$565.2	$552.3	$12.9	2.3

Expenses for the second quarter of 2021/22 were $283.1 million, a $2.1 million decrease from the same period in 2020/21. Year-to-date expenses were $565.2 million, a $12.9 million increase from the same period in 2020/21. Goods and services purchased, excluding direct expenses, increased $1.4 million due to increased consulting, contract, and software expenses and lower than anticipated customer defaults due to economic factors associated with COVID-19. Direct expenses decreased $4.0 million primarily due to decreased wireless device sales, partially offset by an increased average device cost and increased roaming expenses due to eased travel restrictions. Net salaries, wages and benefits increased $2.6 million due to economic and contracted annual increases and reduced capitalized labour. Depreciation and amortization increased $13.0 million primarily due to a higher asset base as we continue to invest in our fixed and wireless broadband networks and changes in asset useful lives.

Net finance expense

Millions of dollars	2021	2020	Change	% Change
Three months ended September 30,	$6.6	$6.8	$(0.2)	(2.9)
Six months ended September 30,	$13.0	$17.3	$(4.3)	(24.9)

Net finance expense for the second quarter of 2021/22 was $6.6 million, down $0.2 million from the same period in 2020/21. Year-to-date net finance expense was $13.0 million, a $4.3 million decrease from the same period in 2020/21. This was driven by a $6.8 million decrease in interest expense on long term debt primarily due to lower average interest rates on outstanding debt and a $2.7 million increase in interest income on overdue accounts due to the resumption of late payment charges previously suspended under the Crown Utility Interest Deferral Program in 2020/21. The decrease is partially offset by reduced sinking fund earnings of $4.4 million due to sinking fund redemptions in fiscal 2020/21.

Financial Condition

Changes in the Corporation's assets, liabilities, and equity from March 31, 2021 to September 30, 2021 are discussed below:

Millions of dollars	Increase (decrease)	Explanation
Cash	$94.5	See condensed consolidated statement of cash flows
Trade and other receivables	(18.3)	Timing of receipts of receivables
Inventories	(10.8)	Minor delays in wireless devices shipments along with prudent inventory order management
Prepaid expenses	2.6	Recognition of contract invoices for prepaid insurance and new prepaid promotions
Contract assets	(2.7)	Reduced number of customers on term contracts
Contract costs	(0.7)	Reduced number of customers on term contracts
Property, plant and equipment	20.9	Capital spending primarily on wireless and fibre projects partially offset by depreciation, retirements, and disposals
Right-of-use assets	(0.1)	No significant change
Intangible assets	(7.5)	Amortization partially offset by capital spending on software
Sinking funds	12.2	Installments, earnings and market value gains
Other assets	27.3	Initial deposit made on 3500-megahertz band spectrum
Trade and other payables	7.3	Timing of payments for operations, capital spending and interest
Notes payable	(140.0)	Repayment of notes payable from issuance of long-term debt partially offset by capital spending requirements
Contract liabilities	2.0	Timing of revenue recognition related to contract liabilities
Other liabilities	(0.3)	No significant change
Deferred income – government funding	(1.4)	Amortization of previous funding to income
Long-term debt	251.3	New debt issues and amortization of the net premium on debt partially offset by debt redemptions
Lease liabilities	(1.3)	Long-term portion of additional lease liability offset by principal repayments
Employee benefit obligations	(0.9)	No significant change
Provisions	0.2	No significant change
Equity	13.8	Total comprehensive income less dividends declared

Cash Flows

Cash provided by operating activities

Millions of dollars	2021	2020	Change	% Change
Six months ended September 30,	$212.7	$145.9	$66.8	45.8

Cash provided by operating activities for the six months ended September 30, 2021 increased $66.8 million compared to the same period in 2020/21 primarily due to increased cash from operations after adjusting for non-cash items and the net change in working capital requirements.

Cash used in investing activities

Millions of dollars	2021	2020	Change	% Change
Six months ended September 30,	$160.7	$144.8	$15.9	11.0

Cash used in investing activities for the six months ended September 30, 2021 increased to $160.7 million, up $15.9 million from the same period in 2020/21 primarily due to paying a deposit for the 5G 3500-megahertz spectrum to Innovation, Science and Economic Development Canada (ISED).

Cash provided by (used in) financing activities

Millions of dollars	2021	2020	Change	% Change
Six months ended September 30,	$42.5	$(11.8)	$54.3	*nmf*[1]

1. nmf - no meaningful figure

Cash provided by financing activities for the six months ended September 30, 2021 was $42.5 million compared to a cash used in financing activities of $11.8 million for the same period in 2020/21.This was primarily due to increased net borrowing.

Capital Resource Ratio

Debt ratio

	September 30, 2021	March 31, 2021	Change
Debt ratio	50.2%	50.4%	(0.2)

The debt ratio decreased to 50.2%, down from 50.4% at March 31, 2021. The overall level of net debt increased $4.6 million during the period due to increased borrowings, offset by increased sinking fund and cash balances.

Equity increased by $13.8 million in the second quarter of 2021/22 after recording net income of $56.1 million, other comprehensive loss of $0.2 million, and dividends of $42.1 million.

The debt ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable, the current portion of long-term debt and bank indebtedness, excluding lease liabilities, less sinking funds, and cash. Capitalization includes net debt, equity advances, accumulated other comprehensive income and retained earnings at the period end.

Capital Expenditures

Millions of dollars	2021	2020	Change	% Change
Property, plant and equipment	$123.7	$137.4	$(13.7)	(10.0)
Intangible assets	9.6	10.4	(0.8)	(7.7)
Six months ended September 30,	$133.3	$147.8	$(14.5)	(9.8)

Total capital expenditures for the six months ended September 30, 2021 were $133.3 million, a decrease increase of $14.5 million from the same period in 2020/21.

Net spending on property, plant and equipment for the six months ended September 30, 2021 was $123.7 million, a decrease of $13.7 million from the same period in 2020/21. The decrease was primarily due to completion of large prior period network enhancement programs. The decrease was partially offset by spending on 5G wireless and fibre network initiatives. Net spending on intangible assets was $9.6 million, a decrease of $0.8 million from the same period in 2020/21 primarily due to reduced spending on internal systems.

Capital expenditures in 2021/22 will focus on further investment in the core Saskatchewan network including: FTTP, 5G Network Modernization, wireless network enhancements and basic network growth and enhancements. This core network investment will ensure: increased internet access speeds; enhanced maxTV service; increased wireless bandwidth, resulting in increased roaming capacity and data speeds; as well as continued network growth and refurbishment. Expenditures will also enhance customer interface and expand service offerings.

2021/22 Outlook

The 2020/21 SaskTel Annual Report identified a consolidated net income target for the fiscal year ended March 31, 2022 of $100.0 million. At this time, SaskTel believes it will meet this target.

Risk Assessment

The 2020/21 Annual Report discussed the risks and uncertainties in SaskTel's business environment focusing on both Strategic and Core Business Risks, including the impact of the COVID-19 pandemic. Strategic Risks are risks that may inhibit SaskTel from achieving goals and targets outlined in its Strategic Plan including the following areas: customer experience, broadband, transformation, and financial sustainability. Core Business Risks are risks associated with the execution of SaskTel's business functions including the following areas: operational, financial, and compliance and legal.

A strong governance process for enterprise risk management is in place. This is an iterative process designed to identify, evaluate, mitigate and control, report, monitor, and assess key corporate risks. As of September 30, 2021, SaskTel's key risk profile has changed slightly. As the pandemic has progressed, the risks of experiencing negative impacts from reduced customer spending or SaskTel's inability to serve customers has diminished. The potential for significant reduction in customer spending is no longer considered a key corporate risk.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Loss

		(Unaudited)			
		Three months ended September 30,		Six months ended September 30,	
Thousands of dollars	Note	2021	2020	2021	2020
Revenue	3	$322,121	$333,532	$633,304	$642,162
Other income		684	1,303	942	3,891
		322,805	334,835	634,246	646,053
Expenses					
Goods and services purchased		135,383	146,061	263,673	266,236
Salaries, wages and benefits		84,366	84,240	175,696	174,054
Internal labour capitalized		(4,860)	(5,207)	(9,934)	(10,894)
Depreciation - property, plant & equipment	5	51,464	43,901	99,761	87,828
Depreciation - right-of-use assets	6	1,466	1,564	3,019	3,108
Amortization	7	8,466	7,827	16,665	15,496
Saskatchewan taxes		6,832	6,885	16,303	16,481
		283,117	285,271	565,183	552,309
Results from operating activities		39,688	49,564	69,063	93,744
Net finance expense	4	6,607	6,770	12,986	17,317
Net income		33,081	42,794	56,077	76,427
Other comprehensive loss					
Items that will be reclassified to net income					
Unrealized (losses) gains on sinking funds		(478)	(1,143)	194	6,896
Reclassification to net income of realized gains on sinking funds	4	-	(2,433)	-	(2,433)
		(478)	(3,576)	194	4,463
Items that will never be reclassified to net income					
Net actuarial losses on defined benefit pension plan	10	(181)	(22,568)	(362)	(22,683)
Total other comprehensive loss		(659)	(26,144)	(168)	(18,220)
Total comprehensive income		$32,422	$16,650	$55,909	$58,207

All net income and total comprehensive income are attributable to Crown Investments Corporation of Saskatchewan (CIC).

See Accompanying Notes

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

Thousands of dollars	Equity advances	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at April 1, 2021	**$237,000**	**$102,666**	**$848,866**	**$1,188,532**
Net income	**-**	**-**	**56,077**	**56,077**
Other comprehensive loss	**-**	**(168)**	**-**	**(168)**
Total comprehensive income	**-**	**(168)**	**56,077**	**55,909**
Dividends declared	**-**	**-**	**42,076**	**42,076**
Balance at September 30, 2021	**$237,000**	**$102,498**	**$862,867**	**$1,202,365**
Balance at April 1, 2020	$237,000	$109,204	$835,784	$1,181,988
Net income	-	-	76,427	76,427
Other comprehensive loss	-	(18,220)	-	(18,220)
Total comprehensive income	-	(18,220)	76,427	58,207
Dividends declared	-	-	49,050	49,050
Balance at September 30, 2020	$237,000	$90,984	$863,161	$1,191,145

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) September 30, 2021	March 31, 2021
Assets			
Current assets			
Cash		$118,233	$23,694
Trade and other receivables	12a	164,940	183,194
Inventories		15,552	26,347
Prepaid expenses		48,946	46,343
Contract assets	12a	70,961	66,567
Contract costs		19,469	19,224
		438,101	365,369
Contract assets	12a	25,345	32,396
Contract costs		56,197	57,110
Property, plant and equipment	5	2,021,266	2,000,391
Right-of-use assets	6	41,604	41,706
Intangible assets	7	256,485	264,012
Sinking funds	12c	96,783	84,619
Other assets	8	38,177	10,856
		$2,973,958	$2,856,459
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	12a	$179,296	$171,990
Dividend payable	12c	19,568	32,688
Notes payable	12c	79,916	219,892
Contract liabilities	12a	58,818	56,629
Other liabilities		15,802	16,111
		353,400	497,310
Contract liabilities	12a	324	489
Deferred income – government funding		15,816	17,234
Long-term debt	9, 12c	1,347,889	1,096,606
Lease liabilities		35,750	37,087
Employee benefit obligations	10	11,392	12,337
Provisions		7,022	6,864
		1,771,593	1,667,927
Province of Saskatchewan's equity			
Equity advance		237,000	237,000
Accumulated other comprehensive income		102,498	102,666
Retained earnings		862,867	848,866
		1,202,365	1,188,532
		$2,973,958	$2,856,459

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

		(Unaudited)	
		Six months ended September 30,	
Thousands of dollars	Note	**2021**	2020
Operating activities			
Net income		**$56,077**	$76,427
Adjustments to reconcile net income to cash provided			
by operating activities:			
Depreciation and amortization	5, 6, 7	**119,445**	106,432
Net finance expense	4	**12,986**	17,317
Interest paid		**(17,450)**	(26,872)
Interest received		**3,486**	1,616
Amortization of government funding		**(2,922)**	(2,915)
Other		**2,284**	(7)
Net change in non-cash working capital	12b	**38,792**	(26,136)
		212,698	145,862
Investing activities			
Property, plant and equipment expenditures		**(121,722)**	(134,812)
Intangible assets expenditures - finite life		**(9,771)**	(10,443)
Spectrum deposit	8	**(29,213)**	-
Government funding		**-**	425
		(160,706)	(144,830)
Financing activities			
Proceeds from long-term debt	12c	**251,527**	210,742
Repayment of long-term debt	12c	**-**	(150,000)
Net repayment of notes payable	12c	**(139,976)**	(53,025)
Sinking fund redemptions	12c	**-**	37,488
Payment of lease liabilities	12c	**(2,758)**	(2,815)
Sinking fund instalments	12c	**(11,050)**	(10,300)
Dividends paid	12c	**(55,196)**	(43,847)
		42,547	(11,757)
Increase (decrease) in cash		**94,539**	(10,725)
Cash, beginning of period		**23,694**	17,221
Cash, end of period		**$118,233**	$6,496

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended September 30, 2021

Note 1 – General information

Saskatchewan Telecommunications Holding Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office is 2121 Saskatchewan Drive, Regina, SK, S4P 3Y2. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Holding Corporation Act* and, as such, the Corporation and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation.

One of the Corporation's subsidiaries, Saskatchewan Telecommunications (SaskTel) is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC) under the *Telecommunications Act* (Canada).

The Corporation markets and supplies a range of wireless, voice, entertainment, internet, data, equipment, marketing, security, software products, and consulting services.

Note 2 – Basis of presentation

The unaudited condensed consolidated interim financial statements (hereinafter referred to as the interim financial statements) as at and for the six months ended September 30, 2021 should be read in conjunction with the Corporation's March 31, 2021 audited consolidated financial statements. The interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. These interim financial statements do not include all of the information required for full annual financial statements.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies and methods of computation used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements and have been applied consistently to all periods presented in these interim financial statements.

The interim financial statements as at and for the six-month period ended September 30, 2021 were approved by the Board of Directors on November 10, 2021.

Functional and presentation currency
These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Basis of measurement
The interim financial statements have been prepared on the historical cost basis except for the following:

- Fair value through other comprehensive income financial instruments and fair value through profit and loss financial instruments are measured at fair value, and
- Employee benefit obligations are recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

Use of estimates and judgments
The preparation of the interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and assumptions are based on several factors, including historical experience, current events including but not limited to the COVID-19 pandemic and actions that the Corporation may undertake in the future, and other assumptions that the Corporation believes are reasonable under the circumstances. Actual results may differ from these estimates.

Note 2 – Basis of presentation, continued

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements includes the following:

- Revenue recognition,
- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life,
- Classification of financial instruments,
- Accounting for government funding,
- Lease liability and right-of-use asset recognition, and
- Accounting for provisions.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the following:

- Revenue recognition,
- Credit risk assessment of financial instruments,
- Useful lives and depreciation rates for property, plant and equipment and right-of-use assets,
- Useful lives and amortization rates for intangible assets,
- The measurement of employee benefit obligations,
- Lease liability and right-of-use asset measurement, and
- Accounting for provisions.

Comparative information

Certain elements of the prior period comparative information have been reclassified to conform with the financial statement presentation adopted for the current period.

Application of new International Financial Reporting Standards, and amendments to standards and interpretations

Certain new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for annual accounting periods beginning after April 1, 2021 or later periods. There was no impact to the interim financial statements upon adoption of these new standards and amendments to the existing standards.

Note 3 – Revenue from contracts with customers

Thousands of dollars	Three months ended September 30, 2021	Three months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2020
Revenue				
Wireless network services and equipment	**$152,439**	$155,609	**$294,287**	$289,726
Fixed broadband and data services	**70,364**	68,330	**139,574**	135,250
Wireline communication services	**44,724**	49,566	**90,881**	101,135
maxTV services	**24,721**	25,658	**50,775**	51,193
Security monitoring services	**8,617**	8,407	**17,214**	17,014
Marketing services	**6,061**	6,377	**12,415**	12,978
Customer premise equipment	**4,462**	8,012	**7,693**	13,434
IT solutions services	**3,404**	3,024	**6,555**	6,089
International software and consulting services	**2,791**	2,468	**4,886**	4,465
Other services	**4,538**	6,081	**9,024**	10,878
	$322,121	$333,532	**$633,304**	$642,162

Note 4 – Net finance expense

Thousands of dollars	Three months ended September 30, 2021	Three months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2020
Recognized in consolidated net income				
Interest on long-term debt	**$9,533**	$12,719	**$18,791**	$25,879
Interest on short-term debt	**82**	82	**145**	505
Interest capitalized	**(922)**	(1,294)	**(1,681)**	(2,533)
Net interest expense	**8,693**	11,507	**17,255**	23,851
Interest on lease liabilities	**250**	263	**502**	529
Net interest on defined benefit liability	**(223)**	(112)	**(446)**	(224)
Accretion expense	**41**	57	**81**	114
Finance expense	**8,761**	11,715	**17,392**	24,270
Sinking fund earnings				
Realized earnings	**(679)**	(1,507)	**(920)**	(2,904)
Reclassification to net income of realized gains on sinking funds	**-**	(2,433)	**-**	(2,433)
	(679)	(3,940)	**(920)**	(5,337)
Interest income	**(1,475)**	(1,005)	**(3,486)**	(1,616)
Finance income	**(2,154)**	(4,945)	**(4,406)**	(6,953)
Net finance expense	**$6,607**	$6,770	**$12,986**	$17,317
Interest capitalization rate			**2.83%**	3.95%

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended September 30, 2021

Note 5 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost						
Balance at April 1, 2021	**$3,704,946**	**$613,989**	**$133,101**	**$199,286**	**$41,275**	**$4,692,597**
Additions	**35,146**	**-**	**7,087**	**81,082**	**401**	**123,716**
Transfers	**91,511**	**34,902**	**87**	**(126,500)**	**-**	**-**
Retirements, disposals and adjustments	**(23,674)**	**(1,137)**	**(17,298)**	**-**	**(5)**	**(42,114)**
Balance at September 30, 2021	**$3,807,929**	**$647,754**	**$122,977**	**$153,868**	**$41,671**	**$4,774,199**
Balance at April 1, 2020	$3,639,106	$587,515	$153,572	$145,124	$39,723	$4,565,040
Additions	45,898	-	22,131	214,332	1,561	283,922
Transfers	132,460	27,456	254	(160,170)	-	-
Retirements, disposals and adjustments	(112,518)	(982)	(42,856)	-	(9)	(156,365)
Balance at March 31, 2021	$3,704,946	$613,989	$133,101	$199,286	$41,275	$4,692,597
Accumulated depreciation						
Balance at April 1, 2021	**$2,412,628**	**$210,683**	**$68,895**	**$ -**	**$ -**	**$2,692,206**
Depreciation	**80,155**	**8,265**	**11,341**	**-**	**-**	**99,761**
Retirements, disposals and adjustments	**(21,912)**	**(562)**	**(16,560)**	**-**	**-**	**(39,034)**
Balance at September 30, 2021	**$2,470,871**	**$218,386**	**$63,676**	**$ -**	**$ -**	**$2,752,933**
Balance at April 1, 2020	$2,376,967	$195,695	$87,723	$ -	$ -	$2,660,385
Depreciation	143,712	15,606	23,643	-	-	182,961
Retirements, disposals and adjustments	(108,051)	(618)	(42,471)	-	-	(151,140)
Balance at March 31, 2021	$2,412,628	$210,683	$68,895	$ -	$ -	$2,692,206
Carrying amounts						
At April 1, 2021	**$1,292,318**	**$403,306**	**$64,206**	**$199,286**	**$41,275**	**$2,000,391**
At September 30, 2021	**$1,337,058**	**$429,368**	**$59,301**	**$153,868**	**$41,671**	**$2,021,266**
At April 1, 2020	$1,262,139	$391,820	$65,849	$145,124	$39,723	$1,904,655
At March 31, 2021	$1,292,318	$403,306	$64,206	$199,286	$41,275	$2,000,391

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended September 30, 2021

Note 6 – Right-of-use assets

Thousands of dollars	Plant and equipment	Buildings and improvements	Land	Total
Cost				
Balance at April 1, 2021	**$16,223**	**$29,264**	**$8,789**	**$54,276**
Additions	**1,557**	**1,101**	**655**	**3,313**
Retirements and adjustments	**-**	**(63)**	**-**	**(63)**
Balance at September 30, 2021	**$17,780**	**$30,302**	**$9,444**	**$57,526**
Balance at April 1, 2020	$13,298	$27,724	$8,879	$49,901
Additions	2,985	1,602	124	4,711
Retirements and adjustments	(60)	(62)	(214)	(336)
Balance at March 31, 2021	$16,223	$29,264	$8,789	$54,276
Accumulated depreciation				
Balance at April 1, 2021	**$6,302**	**$4,965**	**$1,303**	**$12,570**
Depreciation	**1,481**	**1,206**	**332**	**3,019**
Retirements and adjustments	**396**	**(63)**	**-**	**333**
Balance at September 30, 2021	**$8,179**	**$6,108**	**$1,635**	**$15,922**
Balance at April 1, 2020	$3,314	$2,578	$658	$6,550
Depreciation	3,060	2,399	708	6,167
Retirements and adjustments	(72)	(12)	(63)	(147)
Balance at March 31, 2021	$6,302	$4,965	$1,303	$12,570
Carrying amounts				
At April 1, 2021	**$9,921**	**$24,299**	**$7,486**	**$41,706**
At September 30, 2021	**$9,601**	**$24,194**	**$7,809**	**$41,604**
At April 1, 2020	$9,984	$25,146	$8,221	$43,351
At March 31, 2021	$9,921	$24,299	$7,486	$41,706

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended September 30, 2021

Note 7 – Intangible assets

Thousands of dollars	Software	Spectrum licences	Under development	Total
Cost				
Balance at April 1, 2021	**$304,612**	**$120,905**	**$8,750**	**$434,267**
Acquisitions	**3,220**	**-**	**4,451**	**7,671**
Acquisitions – internally developed	**1,865**	**-**	**67**	**1,932**
Transfers	**6,122**	**-**	**(6,122)**	**-**
Retirements, disposals and adjustments	**(6,309)**	**-**	**-**	**(6,309)**
Balance at September 30, 2021	**$309,510**	**$120,905**	**$7,146**	**$437,561**
Balance at April 1, 2020	$440,413	$120,905	$12,172	$573,490
Acquisitions	4,068	-	12,928	16,996
Acquisitions – internally developed	6,360	-	959	7,319
Transfers	17,309	-	(17,309)	-
Retirements, disposals and adjustments	(163,538)	-	-	(163,538)
Balance at March 31, 2021	$304,612	$120,905	$8,750	$434,267
Accumulated amortization				
Balance at April 1, 2021	**$170,255**	**$ -**	**$ -**	**$170,255**
Amortization	**16,665**	**-**	**-**	**16,665**
Retirements, disposals and adjustments	**(5,844)**	**-**	**-**	**(5,844)**
Balance at September 30, 2021	**$181,076**	**$ -**	**$ -**	**$181,076**
Balance at April 1, 2020	$302,004	$ -	$ -	$302,004
Amortization	31,781	-	-	31,781
Retirements, disposals and adjustments	(163,530)	-	-	(163,530)
Balance at March 31, 2021	$170,255	$ -	$ -	$170,255
Carrying amounts				
At April 1, 2021	**$134,357**	**$120,905**	**$8,750**	**$264,012**
At September 30, 2021	**$128,434**	**$120,905**	**$7,146**	**$256,485**
At April 1, 2020	$138,409	$120,905	$12,172	$271,486
At March 31, 2021	$134,357	$120,905	$8,750	$264,012

Note 8 – Other assets

In July 2021, Innovation, Science and Economic Development Canada (ISED) announced the results of the 3500 MHz spectrum license auction that began in June 2021. SaskTel was provisionally awarded the right to acquire 68 licenses for $145.1 million. In accordance with the terms of the auction, a deposit of 20% ($29.0 million) was remitted to ISED by August 13, 2021 and is included in other assets at September 30, 2021. ISED has not indicated a date for the final auction payment.

Note 9 – Long-term debt

On September 15, 2021, the Corporation issued $245.0 million of long-term debt at a premium of $6.5 million through the Saskatchewan Ministry of Finance. The debt issue has a coupon rate of 2.8%, an effective interest rate of 2.79%, and matures on December 2, 2052.

Note 10 – Employee benefit obligations

Other comprehensive loss results, in part, from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plan, specifically the discount rate used to calculate the liabilities of the employee defined benefit plan and changes in the fair value of the employee benefit defined plan assets resulting from differences in the actual versus estimated return on these assets. The discount rates used are as follows:

	2021/22	2020/21
June 30	3.10%	3.00%
September 30	2.80%	2.50%
December 31	n/a	2.50%
March 31	n/a	3.10%

In addition to the other comprehensive income impact detailed below, these assumption changes, combined with pension income and benefits paid for the period, have resulted in a net decrease in the employee benefit obligations for the period which has been partially offset by the impact of the asset ceiling limit.

	Six months ended September 30,	
Thousands of dollars	2021	2020
Actuarial loss on accrued benefit obligation	$(32,079)	$(126,910)
Return on plan assets excluding interest income	56,120	80,979
Effect of asset ceiling limit	(24,403)	23,248
Net actuarial losses on employee benefit plan	$(362)	$(22,683)

Note 11 – Capital management

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances are an equity investment in the Corporation by CIC.

Due to its ownership structure, the Corporation has no access to capital markets for internal equity. Equity advances in the Corporation are determined by the shareholder on an annual basis. Dividends to CIC are determined through the Saskatchewan Provincial budget process on an annual basis.

The Corporation closely monitors its debt level utilizing the debt ratio as a primary indicator of financial health. The debt ratio measures the amount of debt in a corporation's capital structure. The Corporation uses this measure in assessing the extent of financial leverage and in turn, its financial flexibility. Too high a ratio relative to target indicates an excessive debt burden that may impair the Corporation's ability to withstand downturns in revenue and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the period.

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital expenditures. The target debt ratios for subsidiaries are approved by their Boards. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The budgeted ratio for 2021/22 is 52.5%.

Note 11 – Capital management, continued

The Corporation raises most of its capital requirements through internal operating activities, short-term debt, and long-term debt through the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating and receive financing at attractive interest rates.

The Corporation made no changes to its approach to capital management during the period.

The Corporation is not subject to any externally imposed capital requirements.

The debt ratio is as follows:

As at Thousands of dollars	**September 30, 2021**	March 31, 2021
Long-term debt	**$1,347,889**	$1,096,606
Notes payable	**79,916**	219,892
Less: Sinking funds	**96,783**	84,619
Cash	**118,233**	23,694
Net debt (a)	**1,212,789**	1,208,185
Province of Saskatchewan's equity (b)	**1,202,365**	1,188,532
Capitalization	**$2,415,154**	$2,396,717
Debt ratio	**50.2%**	50.4%

a) Net debt excludes lease liabilities
b) Equity includes equity advances, accumulated other comprehensive income, and retained earnings at the end of the period.

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the six months ended September 30, 2021

Note 12 – Additional financial information

a) Statement of financial position

As at Thousands of dollars	Note	September 30, 2021	March 31, 2021
Trade and other receivables			
Customer accounts receivable		$118,657	$111,770
Accrued receivables - customer		1,813	2,547
Allowance for doubtful accounts	13	(4,419)	(7,578)
		116,051	106,739
Other		48,889	76,455
		$164,940	$183,194
Contract assets			
Opening balance		$101,116	$85,350
Contract assets recognized in the current period		42,483	101,563
		143,599	186,913
Amortization of contract assets		(42,466)	(79,250)
Contract terminations transferred to trade receivables		(3,532)	(6,547)
		97,601	101,116
Impairment allowance		(1,295)	(2,153)
Closing balance		96,306	98,963
Current portion		70,961	66,567
Long-term portion		$25,345	$32,396

As at Thousands of dollars	September 30, 2021	March 31, 2021
Trade and other payables		
Trade payables and accrued liabilities	$140,446	$124,939
Payroll and other employee-related liabilities	27,881	36,788
Other	10,969	10,263
	$179,296	$171,990
Contract liabilities		
Opening balance	$57,118	$56,385
Contract liabilities recognized in the current period	169,608	328,650
	226,726	385,035
Recognized in revenue	(167,573)	(327,895)
Terminations	(11)	(22)
Closing balance	59,142	57,118
Current portion	58,818	56,629
Long-term portion	$324	$489

Note 12 – Additional financial information, continued

b) Non-cash working capital changes

	Six months ended September 30,	
Thousands of dollars	**2021**	2020
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**18,254**	$(32,105)
Inventories	**10,795**	(2,685)
Prepaid expenses	**(2,603)**	2,999
Contract assets	**2,657**	3,576
Contract costs	**668**	539
Trade and other payables	**7,306**	141
Contract liabilities	**2,024**	412
Other liabilities	**(309)**	810
Other	**-**	177
	$38,792	$(26,136)

Note 12 – Additional financial information, continued

c) Changes in liabilities arising from financing activities

Thousands of dollars	Assets: Sinking funds	Liabilities: Long-term debt	Liabilities: Notes payable	Liabilities: Lease liabilities	Liabilities: Dividend payable	Total
Balance at April 1, 2021	**$(84,619)**	**$1,096,606**	**$219,892**	**$42,861**	**$32,688**	**$1,307,428**
Changes from financing cash flows						
Proceeds from loans and borrowings	-	251,527	537,143	-	-	788,670
Repayment of borrowings	-	-	(677,119)	(2,758)	-	(679,877)
Sinking fund redemptions	-	-	-	-	-	-
Instalments	(11,050)	-	-	-	-	(11,050)
Dividends paid	-	-	-	-	(55,196)	(55,196)
Total changes from financing cash flows	(11,050)	251,527	(139,976)	(2,758)	(55,196)	42,547
Other changes						
Dividends declared	-	-	-	-	42,076	42,076
Sinking fund earnings	(920)	-	-	-	-	(920)
Sinking fund valuation adjustments	(194)	-	-	-	-	(194)
New leases and assumption changes	-	-	-	2,918	-	2,918
Amortization of net premium on long-term debt	-	(244)	-	-	-	(244)
Total other changes	(1,114)	(244)	-	2,918	42,076	43,636
Balance at September 30, 2021	$(96,783)	$1,347,889	$79,916	$43,021	$19,568	$1,393,611
Balance at April 1, 2020	$(198,490)	$1,109,529	$188,851	$44,095	$25,448	$1,169,433
Changes from financing cash flows						
Proceeds from loans and borrowings	-	210,742	297,822	-	-	508,564
Repayment of borrowings	-	(150,000)	(350,847)	(2,815)	-	(503,662)
Sinking fund redemptions	37,488	-	-	-	-	37,488
Instalments	(10,300)	-	-	-	-	(10,300)
Dividends paid	-	-	-	-	(43,847)	(43,847)
Total changes from financing cash flows	27,188	60,742	(53,025)	(2,815)	(43,847)	(11,757)
Other changes						
Dividends declared	-	-	-	-	49,050	49,050
Sinking fund earnings	(5,337)	-	-	-	-	(5,337)
Sinking fund valuation adjustments	(4,463)	-	-	-	-	(4,463)
New leases and assumption changes	-	-	-	1,951	-	1,951
Amortization of net discount on long-term debt	-	42	-	-	-	42
Total other changes	(9,800)	42	-	1,951	49,050	41,243
Balance at September 30, 2020	$(181,102)	$1,170,313	$135,826	$43,231	$30,651	$1,198,919

Note 13 – Financial risk management

The Corporation is exposed to fluctuations in foreign exchange rates and interest rates, as well as credit and liquidity risk. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates the risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board. At September 30, 2021, the Corporation had foreign currency derivatives outstanding with notional values of $30.9 million and maturities up to July 31, 2022. The Corporation does not actively trade financial instruments.

Note 13 – Financial risk management, continued

Market risks
Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates, and equity prices. These risks have not changed significantly from the prior period.

Fair value
Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal, and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

As at			September 30, 2021		March 31, 2021	
Thousands of dollars	Classification (a)	Fair value hierarchy	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Investments - sinking funds	FVOCI	Level 2	$96,783	$96,783	$84,619	$84,619
Financial liabilities						
Long-term debt	Amortized cost	Level 2	$1,347,889	$1,429,870	$1,096,606	$1,161,618
Derivative financial instruments						
Foreign exchange derivative asset	FVTPL	Level 2	$415	$415	$ -	$ -

(a) Classification details are:
FVOCI – fair value through other comprehensive income, FVTPL – fair value through profit or loss

Fair value hierarchy
When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.
Level 3 – Where valuation is based on unobservable inputs.

There were no items measured at fair value using Level 3 inputs during 2020/21 or to date in 2021/22 and no items transferred between levels in 2020/21 or to date in 2021/22.

Investments carried at fair value through OCI
Investments carried at fair value through OCI are categorized as Level 2 in the hierarchy consist of sinking funds. The fair value of sinking funds is determined by the Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect secondary pricing for these securities.

Note 13 – Financial risk management, continued

Long-term debt
The fair value of long-term debt is determined by the present value of future cash flows, discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

Derivative financial instruments carried at fair value through profit or loss
The fair value of derivative financial instruments that are used to manage foreign currency exposure risks are estimated based upon quoted market prices in active markets for the same or similar financial instruments or current rates offered to the Corporation for financial instruments of similar maturity, as well as discounted future cash flows determined using current rates for similar financial instruments of similar maturities subject to similar risks (such fair value estimates being largely based on the Canadian dollar versus U.S. dollar forward exchange rate as at the statement of financial position dates).

Credit risk
Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk relates to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation does not have material concentrations of credit risk. Current credit risk relates to trade and other receivables, device financing receivables, unbilled revenue, contract assets, sinking funds, interest receivable and counterparties to financial derivatives. The maximum exposure to credit risk is represented by the carrying amounts reported in the statement of financial position. There is minimal credit risk related to non-customer related financial instruments and derivative instruments at September 30, 2021 and March 31, 2021 due to the investment-grade assets held within the sinking funds and investment-grade counterparties to derivative instruments.

Credit risk related to customer related financial instruments is primarily reflected in the allowance for doubtful accounts. The allowance for doubtful accounts has been decreased for the period ended September 30, 2021 mainly due to lower customer defaults and conclusion of the Crown Deferral Program.

Allowance for doubtful accounts

	Three months		Six months	
Periods ended September 30, Thousands of dollars	**2021**	2020	**2021**	2020
Balance, beginning of period	**$6,626**	$2,874	**$7,578**	$2,606
Less: accounts written off	**(1,077)**	(1,886)	**(3,196)**	(2,959)
Recoveries	**(535)**	2,013	**(118)**	2,622
Provisions for losses	**(595)**	3,811	**155**	4,543
Balance, end of period	**$4,419**	$6,812	**$4,419**	$6,812

Note 14 – COVID-19

The Corporation’s telecommunications and security operations have been recognized by Canadian governments as essential services. To date, there has been minimal impact as a result of the emergency measures adopted to combat the spread of the COVID-19 pandemic, and the resulting economic conditions on the Corporation’s business. Measures to combat the spread of the pandemic have intensified over the last several months, including significant vaccine administration programs. As the pandemic has progressed, the risk of experiencing negative impacts from reduced customer spending or SaskTel’s inability to serve customers has diminished.